Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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PAGE 01 STATE 068592

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E.O. 11652: GDS
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SUBJECT:NATO FORCE PROPOSALS/GOALS 1975-80 LUXEMBOURG

REFS: (A) STATE 42348, (B) MCM-14-74, (C) USNATO 1790

SECTION I INTRODUCTION

1. THIS MESSAGE PROVIDES SPECIFIC GUIDANCE FOR MISSION USE DURING CONTINUING REVIEW OF LUXEMBOURG FORCE PROPOSALS/GOALS. THE GENERAL APPROACH USED IN DEVELOPING THIS GUIDANCE WAS DESCRIBED IN REF A. FYI. WE REITERATE THAT THE CONCEPT EMPLOYED IN ARRIVING AT US PROPOSED FORCE GOALS DOES NOT ATTEMPT TO SUPPLANT THE MILITARY CONSIDERATIONS EXPRESSED AS MC PRIORITIES IN FORCE
SECRET

PAGE 02 STATE 068592

PROPOSALS. RATHER, IT USES THOSE PROPOSALS AS A DEPARTURE POINT TO INTERWEAVE ECONOMIC, POLITICAL, AND USG POLICY CONSIDERATIONS INTO THE FORCE PLANNING PROCESSES OF THE ALLIANCE. END FYI.

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

2. AS DESCRIBED IN REF A, OUR "REASONABLE CHALLENGE" FOR NATO COUNTRIES WAS DEFINED AS THE INCREMENTAL FUNDS -- OVER AND ABOVE CURRENT NATIONAL EXPENDUTURE PLANS -- THAT COUNTRIES WOULD HAVE DURING 1975-80 IF THEY MAINTAINED THEIR CURRENT PERCENTAGE OF GNP DEVOTED TO DEFENSE. IN THE CASE OF LUXEMBOURG, HOWEVER, NATIONAL PLANS ALREADY CALL FOR A LEVEL OF SPENDING EQUAL TO THEIR PRESENT GNP

PERCENTAGE. ACCORDINGLY, WE HAVE NOT RECOMMENDED THAT LUXEMBOURG MAKE AVAILABLE ADDITIONAL FUNDS ABOVE CURRENT NATIONAL PLANS.

3. WE HAVE ALSO FOLLOWED THE PROCEDURE DESCRIBED IN REF A FOR DISTILLING A US PROPOSED LIST OF PRIORITY ONE FORCE GOALS OUT OF REF B. IN THE CASE OF LUXEMBOURG, NARROW-ING THE CRITERIA FOR PRIORITY ONE TO THOSE FORCE PROPOSALS WHICH SEEM TO ADVANCE NATO'S FORCE STRUCTURE TOWARDS THE OBJECTIVES EMPHASIZED BY SECRETARY SCHLESINGER HAS RESULTED IN THE PROPOSED FORCE GOALS INCLUDED BELOW IN TABLE III.

4. WE ASSUME MISSIONWILL WORK CLOSELY WITH DELEGATIONS AND INTERNATIONAL STAFF IN CARRYING OUT APPROPRIATE MISSIONARY WORK.

5. THE FOLLOWING SECTIONS PROVIDE DETAILS ON THE FORCE PROPOSALS FOR LUXEMBOURG.

SECTION II: COMPUTATION OF "REASONABLE CHALLENGE" EXPENDITURE TARGET FOR LUXEMBOURG

1. THIS SECTION DESCRIBES THE PROCESS USED TO ESTABLISH OUR REASONABLE CHALLENGE EXPENDITURE TARGET FOR LUXEMBOURG. A SUMMARY OF THE KEY STEPS IS PRESENTED BELOW FOLLOWED BY A GENERAL DESCRIPTION OF DATA SOURCES AND ASSUMPTIONS.

SECRET

1972 CONSTANT PRICES, LUX. FR. IN MILLIONS

(1) PROJECTED 1975-80 GNP	(2) PERCENTAGE OF GNP CURRENTLY DEVOTED TO DEFENSE	1975-80 DEFENSE EXPENDITURES TARGET BASED ON MAINTAINING CURRENT PERCENTAGE OF GNP DEVOTED TO DEFENSE	(4) PROJECTED	(5) REASONABLE CHALLENGE
361,970	0.95 PERCENT	3,439		

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

--- 1975-80 DEFENSE (DIFFERENCE
----- EXPENDITURES BETWEEN TARGET AND
--- BASED ON CURRENT NATIONAL PLANS)
--- NATIONAL PLANS (3) -(4)

------ 3,439

SUMMARY OF KEY STEPS

2. FIRST, WE PROJECTED TOTAL GNP FOR 1975 THORUGH 1980 (COL. 1). NEXT, WE DETERMINED THE TOTAL FUNDS THAT WOULD BE AVAILABLE FOR DEFENSE DURING 1975-1980 IF LUXEMBOURG ADHERED TO MINISTERIAL GUIDANCE CALLING FOR NATIONS TO ALLOCATE AT LEAST A CONSTANT SHARE OF THEIR NATIONAL WEALTH, I.E., THEIR GNP, TO DEFENSE (COL. 3). WE THEN DETERMINED WHAT FUNDS LUXEMBOURG WOULD HAVE AVAILABLE FOR DEFENSE DURING 1975-1980 BASED CURRENT NATIONAL EXPENDITURE PLANS (COL. 4). WE ASSUMED THAT THE FORCE PROPOSALS ALREADY IN NATIONAL FORCE PLANS WOULD BE FUNDED OUT OF THE AMOUNTS SHOWN IN COL. 4 AND THAT ADDITIONAL FUNDING, OVER AND ABOVE THE AMOUNTS SHOWN IN COL. 4, WOULD BE NECESSARY TO FUND ANY ADDITIONAL FORCE PROPOSALS (OTHER THAN NO COST/LOW COST PROPOSALS). COLUMN 5 IS THE DIFFERENCE BETWEEN TOTAL DEFENSE EXPENDITURES BASED ON MAINTAINING THE CURRENT GNP PERCENTAGE (COL.5) AND TOTAL DEFENSE EXPENDITURES BASED ON CURRENT NATIONAL EXPENDITURE PLANS (COL. 4).

SECRET

PAGE 04 STATE 068592

3. IN THE CASE OF LUXEMBOURG, THE DEFENSE EXPENDITURE TARGET BASED ON MAINTAINING THE CURRENT PERCENTAGE OF GNP DEVOTED TO DEFENSE (COL.3) IS EQUAL TO PROJECTED EXPENDITURES BASED ON NATIONAL PLANS (COL. 4) PRODUCING A ZERO IN COLUMN 5. (OUR ESTIMATE OF NATIONAL PLANS IS BASED ON THE ASSUMPTION THAT LUXEMBOURG WILL MAINTAIN THE PRESENT PROPORTION OF GNP DEVOTED TO DEFENSE.) ACCORDINGLY, BASED ON OUR METHODOLOGY, WE WOULD NOT EXPECT LUXEMBOURG TO MAKE AVAILABLE ADDITIONAL FUNDS - TO FUND FORCE PROPOSALS NOT YET IN COUNTRY PLANS.

DATA SOURCES AND ASSUMPTIONS

4. PRICE BASE: ALL COMPUTATIONS WERE DEVELOPED ON THE BASIS OF 1972 CONSTANT PRICES. THIS WAS THE PRICE BASE USED BY SHAPE TECHNICAL CENTER IN ITS COST ESTIMATES OF THE FORCE PROPOSALS.

5. GNP PROJECTIONS (COLUMN 1): GNP PROJECTIONS ARE BASED ON THE FORECASTS PROVIDED IN NATO DOCUMENT DPC/D (73)23 ADJUSTED TO REFLECT RECENT INFORMATION CONCERNING

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

THE IMPACT OF THE ENERGY CRISIS. BASED ON INFORMATION REPORTED IN LUXEMBOURG 38, 21 JAN 74, WE ESTIMATED THERE WOULD BE ZERO REAL GROWTH IN GNP IN 1974. WE ASSUMED THAT GNP GROWTH WOULD INCREASE GRADUALLY FOLLOWING 1974 BUT, DUE TO LINGERING EFFECTS OF THE ENERGY CRISIS, WOULD NOT ACHIEVE THE 3.0 PERCENT GROWTH RATE PROJECTED

IN DPC/D(73)23 UNTIL AROUND 1977. WE ASSUMED THE 3.0 PERCENT GROWTH RATE WOULD THEN BE MAINTAINED THROUGH 1980.

6. CURRENT GNP PERCENTAGE DEVOTED TO DEFENSE (COLUMN 2): THIS FIGURE, CALCULATED USING THE GNP PERCENTAGES SHOWN IN NATO DOCUMENT ISM (73)11, REPRESENTS THE AVERAGE OF LUXEMBOURG'S 1972 AND 1973 GNP PERCENTAGES. SINCE GNP PERCENTAGES WILL FLUCTUATE FROM YEAR TO YEAR AND SINCE 1973 DATA IS STILL SUBJECT TO CHANGE, THE AVERAGE FOR THE TWO MOST RECENT YEARS, 1972 AND 1973, WAS CONSIDERED TO BE A MORE REPRESENTATIVE INDICATION OF A
SECRET

COUNTRY'S RECENT EFFORT THAN EITHER 1972 OR 1973 ALONE.

7. TOTAL DEFENSE EXPENDITURES BASED ON CURRENT NATIONAL PLANS (COLUMN 4): LUXEMBOURG HAS PROVIDED NATO WITH NO INFORMATION CONCERNING DEFENSE EXPENDITURE PLANS BEYOND 1974. HOWEVER, INFORMATION PROVIDED BY USMISSION NATO (USNATO 819) INDICATES LUXEMBOURG WILL PROBABLY CONTINUE TO MAINTAIN THE CURRENT PERCENTAGE OF GNP DEVOTED TO DEFENSE. ACCORDINGLY OUR PROJECTION OF LUXEMBOURG DEFENSE EXPENDITURES IS BASED ON THE ASSUMPTION THAT THE CURRENT PERCENTAGE OF GNP DEVOTED TO DEFENSE (AS SHOWN IN COLUMN 2, ABOVE) WILL BE MAINTAINED THROUGH 1980.

SECTION III: PRIORITY ONE DRAFT GOALS FOR LUXEMBOURG

1. BY THE PROCEDURE DETAILED IN REF A WE HAVE IDENTIFIED PROPOSALS WHICH MEET THE SECDEF CRITERIA. THESE WERE GIVEN US PRIORITY ONE, INDEPENDENT OF THE MC PRIORITY. IF COSTS WERE INCLUDED WITHIN COUNTRY PLANS, A LETTER C APPEARS IN THE COST COLUMN OF THE FOLLOWING TABLE. COSTS INDICATED ARE THOSE COSTS OVER AND ABOVE DRAFT COUNTRY PLANS. TABULATED BELOW ARE PROPOSED GOALS FOR THE LAND FORCES OF LUXEMBOURG. THOSE PROPOSALS MEETING SECDEF CRITERIA FOR WHICH COSTS HAVE BEEN IDENTIFIED AMOUNT TO 35 MILLION LUXEMBOURG FRANCS. THAT AMOUNT DOES NOT INCLUDE THE REMAINING COSTS OF PROPOSALS WHICH MET THE SECDEF CRTIERIA FOR US PRIORITY ONE, BUT FOR WHICH COSTS HAVE NOT BEEN AVAILABLE.

2. FOR US PRIORITY ONE PROPOSALS, ESTABLISHED IN ACCORD-

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

ANCE WITH CRITERIA OUTLINED IN SECDEF STATEMENTS TO NATO.
THE US TYPE CODES SHOWN ON THE TABLES ARE AS FOLLOWS:

TYPE CODE

M MAINTAIN THE CURRENT SIZE AND READINESS OF FORCES, REPLACING WORN-OUT OR OBSOLETE EQUIPMENT AS NEEDED.

NC MAKE IMPROVEMENTS THAT HAVE LITTLE OR NO COST.

R/S TAKE ADVANTAGE OF EFFICIENCIES GAINED THROUGH RATIONALIZATIONAND SPECIALIZATION OF FORCES.

AT IMPROVE ANTI-ARMOR DEFENSES.

AD IMPROVE CLOSE IN AIR DEFENSES.

AP IMPROVE AIRCRAFT PROTECTION THROUGH SHELTERS.

EW IMPROVE ECM/ECCM CAPABILITIES.

WR INCREASE WAR RESERVES, ESPECIALLY PRECISION MUNITIONS.

TABLE III HIGHEST PRIORITY FORCE PROPOSALS
COUNTRY: LUXEMBOURG FORCE: LAND

1975-80 PROPOSAL SERIAL NO.	COST OVER AND ABOVE COUNTRY PLANS (MLF)	MC PRIORITY	US TYPE CODE
1L01A			
1L01B			
1L02			
1L04			
IL06 (MODIFIED)	0.0		

TOTALS: 3 AT 35.4
2 FOR WHICH COSTS INCLUDED IN COUNTRY PLANS

SECTION IV: ANALYSIS AND US PROPOSAL

1. COST OF PROPOSED US PRIORITY ONE GOALS.

A. THE TOTAL COST OF US SUGGESTED PRIORITY ONE LAND, AIR AND MARITIME DRAFT FORCE GOALS, OVER AND ABOVE CURRENT COUNTRY PLANS, IS 35 MILLION LUXEMBOURG FRANCS.

B. ACCORDINGLY, IF ACCEPTED, THE US PROPOSED FORCE GOALS FOR LUXEMBOURG WOULD REQUIRE AN EXPENDITURE INCREASE OVER

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

AND ABOVE ESTIMATED CURRENT NATIONAL PLANS (3,439 MILLION

LUXEMBOURG FRANCS) OF ABOUT ONE PERCENT. IF LUXEMBOURG ACCEPTED THOSE PROPOSALS, THE PERCENT OF GNP THAT IT DEVOTES TO DEFENSE WOULD INCREASE BY ONE TENTH OF A PERCENT.

2. THE US SHOULD, THEREFORE, PROPOSE THAT:

A. LUXEMBOURG BE ENCOURAGED TO CONTINUE TO DEVOTE A CONSTANT SHARE OF ITS GNP TO DEFENSE,

B. LUXEMBOURG CONSIDER WHICH, IF ANY, OF THE FORCE PROPOSALS IN COUNTRY PLANS BUT EXCLUDED FROM THE LIST OF US PROPOSED FORCE GOALS IT MIGHT WISH TO ACCEPT AS PRIORITY TWO OR THREE, OR DROP ALTOGETHER;

C. TO THE EXTENT THAT FUNDS MIGHT BE RELEASED BY SUCH DECISIONS, LUXEMBOURG CONSIDER ACCEPTING AS PRIORITY ONE AND REALLOCATING FREED FUNDS TO SOME ADDITIONAL ITEMS ON THE LIST OF US PROPOSED FORCE GOALS; AND

D. FIRST PRIORITY BE GIVEN TO THOSE PROPOSALS CARRYING THE HIGHEST MC PRIORITY AND APPEARING IN THE LIST OF US PROPOSED FORCE GOALS.

3. WASHINGTON WILL CONTINUE TO KEEP THE EVALUATION OF NATO FORCE GOALS UNDER CAREFUL REVIEW IN THE LIGHT OF DEVELOPMENTS REPORTED BY THE MISSION AND WILL BE PREPARED TO SUPPLEMENT OR REVISE GUIDANCE AS MAY BE CONSIDERED APPROPRIATE. RUSH

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Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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EO Systematic Review
30 JUN 2005

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